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ACTION EUR-25

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TAGS: ECON, OECD, GW

SUBJECT: EDRC REVIEW OF GERMANY, APRIL 18

REF: (A) EDR(73)6; (B) STATE 71872; (C) BONN 5422;

(D) OECD 9928

1. SUMMARY. GERMANS AGREED WITH EDRC AND SECRETARIAT THAT ECONOMY RISKS OVERHEATING IN COURSE 1973 AND 1974 UNLESS DEMAND IS RESTRAINED. HOWEVER, THEY FELT THEIR PRESENT AND PROPOSED POLICY MEASURES WERE ALREADY POINTED WELL IN DIRECTION OF RESTRAINT, AND THEY REJECTED RECOMMENDATION THAT DEMAND RESTRAINT BE SUPPLEMENTED BY VARIOUS PRICE/ INCOMES POLICY MEASURES. END SUMMARY.

2. GERMAN DELEGATION (LED BY TIETMAYER, MIN ECON) FOUND DRAFT ECONOMIC SURVEY (REF A) TO BE BALANCED ASSESSMENT OF GERMAN SITUATION. THEY HAD NO INTENTION OF REVISING THEIR EARLIER OFFICIAL TARGET FORECASTS FOR 1973, BUT ADMITTED TO EDRC THAT OUTPUT AND PRICES WERE ACCELERATING NOW MORE THAN EXPECTED, ALTHOUGH THERE WERE REASONS TO EXPECT SOME SLOWER INCREASE IN AT LEAST SECOND HALF OF YEAR. THEY ESTIMATED 1973 INCREASE

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OF REAL GNP AT CLOSE TO 6 PER CENT RATHER THAN SECRETARIAT'S 5.5 PER CENT (AND AS COMPARED WITH EARLIER 4-5 PER CENT GERMAN " OFFICIAL" FORECAST). GERMANS ALSO ADMITTED PRICE INCREASES (GNP DEFLATOR) COULD PERHAPS BE ABOVE SECRETARIAT'S 6.6 PER CENT ESTIMATE. ON EXTERNAL SIDE, THEY FORECAST CURRENT ACCOUNT IN EQUILIBRIUM, WITH NO LOSS OF EXPORT SHARES DUE TO REVALUATION.

3. CONCERNING POLICY, GERMANS DISAGREED WITH SECRETARIAT PROPOSITION MADE DURING MEETING THAT EMPHASIS NOW SHOULD BE ON FISCAL RESTRAINT (ESPECIALLY EXPENDITURES), WHILE MONETARY POLICY (WHICH APPARENTLY PLACING VERY HEAVY BURDEN ON BANKS) SHOULD BE EASED A LITTLE. GERMANS SAID THEY NEEDED RESTRAINT ON BOTH FRONTS, AND IN THIS RESPECT DISAGREED WITH SECRETARIAT'S FORECAST OF PUBLIC SECTOR'S FINANCIAL SURPLUS IN 1973. GERMANS BELIEVED EXPENDITURES COULD BE HELD DOWN, WHILE REVENUES WOULD RISE ALONG WITH INCREASE OF NOMINAL GNP. DESPITE US EFFORTS, EDRC DID NOT AGREE TO AMND PARA 38 (REF A) IN SENSE RECOMMENDED REF (B).

4. GERMANS, FOR THEIR PART, REJECTED INCLUSION OF LAST TWO PARAS (51 AND 52) OF REF (A) IN PUBLISHED SURVEY ON GROUNDS PRICE/ INCOMES POLICY MEASURES SUGGESTED WERE NOT FEASIBLE IN GERMAN CONTEXT, AND WIDER USE OF " THRESHOLD AGREEMENTS" WOULD ACTUALLY
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